
FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT

Boards of Control
Teachers' Retirement System of Alabama
Employees' Retirement System of Alabama
Judicial Retirement Fund

We have audited the accompanying combining statement of plan net assets of the Retirement Systems of Alabama (consisting of the Teachers' Retirement System of Alabama, the Employees' Retirement System of Alabama, and the Judicial Retirement Fund), component units of the State of Alabama, as of September 30, 2008, and the related combining statement of changes in plan net assets for the year then ended. These financial statements are the responsibility of the Retirement Systems of Alabama. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year partial comparative information has been derived from the Retirement Systems of Alabama's 2007 financial statements, which were audited by other auditors who expressed an unqualified opinion on such financial statements in their report dated March 12, 2008.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the 2008 financial statements referred to above present fairly, in all material respects, the financial position of the Retirement Systems of Alabama (component units of the State of Alabama) as of September 30, 2008, and its changes in plan net assets for the year then ended in conformity with U.S. generally accepted accounting principles.

The management's discussion and analysis on pages 14 through 17 and the schedules of funding progress and employer contributions (pages 40 through 42) are not required parts of the basic financial statements but are supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Independent Auditors' Report
Boards of Control
Teachers' Retirement System of Alabama
Employees' Retirement System of Alabama
Judicial Retirement Fund
Montgomery, Alabama

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information included on pages 43 through 45 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Caru, Riggs & Ingram, L.L.C.

January 27, 2009
Montgomery, Alabama

RETIREMENT SYSTEMS OF ALABAMA

Financial Section

Management's Discussion and Analysis

The Retirement Systems of Alabama (RSA) is comprised of the Teachers' Retirement System (TRS), Employees' Retirement System (ERS), and Judicial Retirement Fund (JRF). The following discussion provides an overview of the financial position and results of operation for the RSA as of and for the period ended September 30, 2008, respectively. For more detailed information, please refer to the financial statements, including the Notes to the Financial Statements and the Required Supplementary Information.

Financial Statements and Required Supplementary Information

The financial statements (statements) include the Combining Statement of Plan Net Assets and the Combining Statement of Changes in Plan Net Assets. The Notes to the Financial Statements are considered an integral part of the financial statements. The statements are prepared using the economic resources measurement focus and accrual basis of accounting. Revenues are recognized when earned, pursuant to plan requirements, and expenses are recognized when incurred, regardless of when cash is received or expended. Investments are reported at fair value.

Combining Statement of Plan Net Assets – Includes all accounting assets and liabilities of the RSA and provides a snapshot of the financial position of the RSA as of the end of the fiscal year. Assets less liabilities results in the net assets held in trust for pension benefits at fiscal year-end.

Combining Statement of Changes in Plan Net Assets – Reports all additions and deductions of the RSA for the fiscal year. Additions primarily consist of employer contributions, employee contributions, and investment income. Deductions are principally made up of retirement allowance payments. Additions minus deductions provide the change in plan net assets for the fiscal year. The change in plan net assets plus the beginning plan net assets results in the plan net assets at fiscal year-end.

The Notes to the Financial Statements include plan descriptions, a summary of significant accounting policies, a description of legally required reserves and corresponding reserve balances at year-end, credit risk disclosures for cash and investments, concentration of investments disclosures, securities lending disclosures, funded status, and additional actuarial information relevant to the latest actuarial valuations.

The Required Supplementary Information following the Notes to the Financial Statements includes a Schedule of Funding Progress and a Schedule of Employer Contributions. The Schedule of Funding Progress provides trend data on the level of funding for the TRS, ERS, and JRF plans. The Schedule of Employer Contributions provides trend data on the annual required employer contributions and the percentage actually contributed.

Comparative Summary Statements

Summary of Comparative Statement of Plan Net Assets
As of September 30, 2008 and 2007
(Amounts in Thousands)

	2008	2007	Variance	% Increase/ (Decrease)
Assets				
Cash	\$ 14,289	\$ 16,428	\$ (2,139)	(13.02)
Receivables	359,673	339,147	20,526	6.05
Investments	26,447,602	32,145,955	(5,698,353)	(17.73)
Invested in Securities Lending Collateral	2,350,847	4,080,080	(1,729,233)	(42.38)
Property and Equipment	156,730	94,842	61,888	65.25
Total Assets	29,329,141	36,676,452	(7,347,311)	(20.03)
Liabilities				
Accounts Payable and Other Liabilities	6,299	5,471	828	15.13
Other Post-employment Benefit Obligations	2,087	-	2,087	-
Securities Lending Collateral	2,350,847	4,080,080	(1,729,233)	(42.38)
Total Liabilities	2,359,233	4,085,551	(1,726,318)	(42.25)
Net Assets	\$ 26,969,908	\$ 32,590,901	\$ (5,620,993)	(17.25)

Summary Comparative Statement of Changes in Plan Net Assets
For the Fiscal Years Ended September 30, 2008 and 2007
(Amounts in Thousands)

	<u>2008</u>	<u>2007</u>	<u>Variance</u>	<u>% Increase/ (Decrease)</u>
<i>Additions</i>				
Employee Contributions	\$ 516,141	\$ 486,422	\$ 29,719	6.11
Employer Contributions	1,069,214	827,408	241,806	29.22
Investment Income	(4,949,113)	4,943,969	(9,893,082)	(200.10)
Transfers Between Systems	<u>5,224</u>	<u>5,440</u>	<u>(216)</u>	<u>(3.97)</u>
Total Additions	<u>(3,358,534)</u>	<u>6,263,239</u>	<u>(9,621,773)</u>	<u>(153.62)</u>
<i>Deductions</i>				
Retirement Allowance Payments	2,164,925	2,034,825	130,100	6.39
Return of Contributions, Unit				
Withdrawals, and Death Benefits	68,787	69,486	(699)	(1.01)
Transfers Between Systems	5,224	5,440	(216)	(3.97)
Administrative Expense	22,634	17,901	4,733	26.44
Depreciation	<u>889</u>	<u>778</u>	<u>111</u>	<u>14.27</u>
Total Deductions	<u>2,262,459</u>	<u>2,128,430</u>	<u>134,029</u>	<u>6.30</u>
<i>Increase in Plan Net Assets</i>	<u>(5,620,993)</u>	<u>4,134,809</u>	<u>(9,755,802)</u>	<u>(235.94)</u>
Net Assets - Beginning of Year	<u>32,590,901</u>	<u>28,456,092</u>	<u>4,134,809</u>	<u>14.53</u>
<i>Net Assets - End of Year</i>	<u><u>\$ 26,969,908</u></u>	<u><u>\$ 32,590,901</u></u>	<u><u>\$ (5,620,993)</u></u>	<u><u>(17.25)</u></u>

Comparison of Individual Plan Net Assets
As of September 30, 2008 and 2007
(Amounts in Thousands)

	<u>2008</u>	<u>2007</u>	<u>Variance</u>	<u>% Increase/ (Decrease)</u>
TRS	\$ 18,100,387	\$ 21,918,750	\$ (3,818,363)	(17.42)
ERS	8,647,705	10,401,218	(1,753,513)	(16.86)
JRF	<u>221,816</u>	<u>270,933</u>	<u>(49,117)</u>	<u>(18.13)</u>
Totals	<u><u>\$ 26,969,908</u></u>	<u><u>\$ 32,590,901</u></u>	<u><u>\$ (5,620,993)</u></u>	<u><u>(17.25)</u></u>

RETIREMENT SYSTEMS OF ALABAMA

Financial Section

Management's Discussion and Analysis (Continued)

Financial Analysis

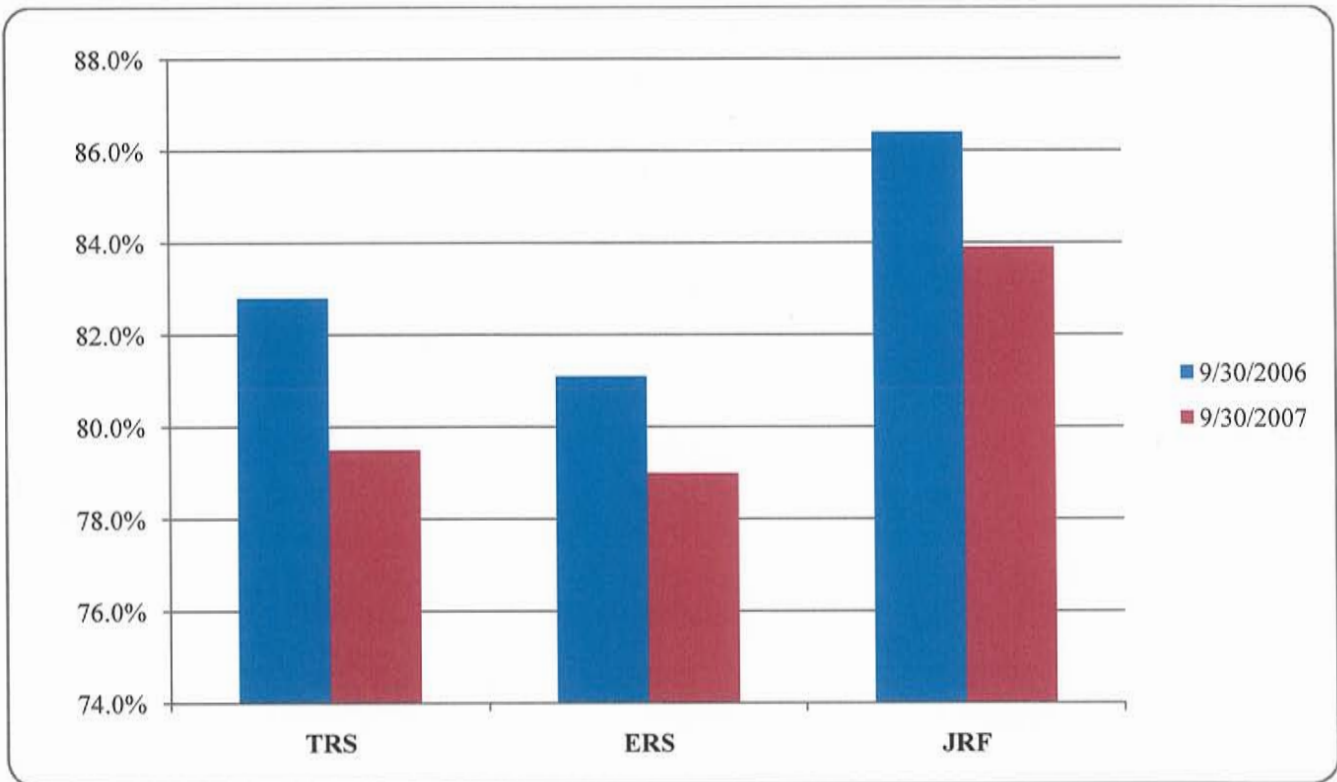
- Employer contributions and receivables increased primarily as a result of increases in employer cost rates and covered payroll. Covered payroll increased due to new units participating in the ERS and salary increases.
- Employee contributions increased as a result of new units participating in the ERS and salary increases.
- Assets and liabilities related to securities lending decreased as a result of decreased securities lending activities.
- Investments and investment income decreased mainly as a result of the downturn in the equity markets. The RSA returns on equity were in line with the overall market returns. The S&P 500 decreased 21.98% in 2008 compared to a return of 16.44% in 2007 and the S&P Midcap 400 decreased 16.68% in 2008 compared to a return of 18.76% in 2007.
- Property and equipment increased mainly due to the completion of a new administrative building.
- Retirement allowance payments increased primarily due to new retirees.
- Administrative expenses increased chiefly due to the implementation of GASB 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*.

Funding Status

The primary objective of a retirement system is to accumulate sufficient assets to pay benefits to participants when due. The principal sources of assets to fund benefits include investment income and member and employer contributions. A five-year smoothing method is used in actuarially valuing assets to limit fluctuations in the contributions from year to year.

The ratio of actuarial assets to actuarial liabilities provides an excellent indication as to whether sufficient assets are being accumulated to pay benefits when due. The following bar graph provides comparisons of the funded ratio (actuarial assets to actuarial liabilities) as of the last two valuations for each System (September 30, 2007 and September 30, 2006). The funded ratios decreased slightly in the most recent valuations. As a result of the decline in fair values of investments during fiscal year 2008, the funded ratios in the fiscal year 2008 actuarial valuations will decline resulting in increases to the annual required contributions (ARC) of employers. However, as reflected by the following graph, the TRS, ERS, and JRF continue to operate on an actuarially sound basis and accumulated funds are sufficient to continue to provide benefits as they become due.

FUNDED STATUS



Financial Highlights

- Total assets exceeded total liabilities at September 30, 2008, by \$27 billion. Net assets are held in trust to meet future benefit payments.
- The funding level (actuarial value of assets as a percent of actuarial accrued liabilities) as of the latest actuarial valuations was 79.5% for the TRS, 79.0% for the ERS, and 83.9% for the JRF.
- The investment section contains a detailed schedule of investment returns and related benchmarks.

Subsequent Events

Subsequent to September 30, 2008, the financial markets have continued to decline. Accordingly, as of December 31, 2008, the TRS, ERS, and JRF portfolios had declined by approximately 11.11%, 10.69%, and 13.50%, respectively, compared to September 30, 2008.

RETIREMENT SYSTEMS OF ALABAMA

Financial Section

Combining Statement of Plan Net Assets

September 30, 2008 with comparative figures for 2007

(Amounts in Thousands)

	2008			
	Teachers' Retirement System	Employees' Retirement System	Judicial Retirement Fund	Totals
Assets				
Cash (Note 4)	\$ 6,454	\$ 6,667	\$ 1,168	\$ 14,289
Receivables				
Employee Contributions	25,796	15,406	119	41,321
Employer Contributions	60,621	30,299	334	91,254
Dividends and Interest	152,654	73,095	1,349	227,098
Total Receivables	239,071	118,800	1,802	359,673
Investments, at Fair Value (Note 5)				
Domestic Equities	8,096,041	4,042,346	118,731	12,257,118
Domestic Fixed Income	5,173,748	2,450,954	58,304	7,683,006
International Equities	2,496,175	1,104,797	16,761	3,617,733
Real Estate	1,494,190	726,105	2,647	2,222,942
Short-term	495,316	148,872	22,615	666,803
Total Investments	17,755,470	8,473,074	219,058	26,447,602
Invested Securities Lending Collateral (Note 5)	1,581,944	731,431	37,472	2,350,847
Property and Equipment less Accumulated Depreciation (Note 8)	104,168	52,562	-	156,730
Total Assets	19,687,107	9,382,534	259,500	29,329,141
Liabilities				
Accounts Payable and Other Liabilities	3,735	2,367	197	6,299
Other Post-employment Benefit Obligations (Note 9)	1,041	1,031	15	2,087
Securities Lending Collateral (Note 5)	1,581,944	731,431	37,472	2,350,847
Total Liabilities	1,586,720	734,829	37,684	2,359,233
Net Assets Held in Trust for Pension Benefits (Notes 3 & 6)	\$ 18,100,387	\$ 8,647,705	\$ 221,816	\$ 26,969,908

See accompanying Notes to the Financial Statements .

2007				
	Teachers' Retirement System	Employees' Retirement System	Judicial Retirement Fund	Totals
<i>Assets</i>				
Cash	\$ 8,102	\$ 7,190	\$ 1,136	\$ 16,428
Receivables				
Employee Contributions	25,508	14,600	112	40,220
Employer Contributions	47,751	26,083	316	74,150
Dividends and Interest	151,198	72,215	1,364	224,777
Total Receivables	224,457	112,898	1,792	339,147
Investments, at Fair Value				
Domestic Equity	10,350,683	5,002,102	152,778	15,505,563
Domestic Fixed Income	5,282,777	2,497,334	64,232	7,844,343
International Equities	3,735,724	1,650,424	24,752	5,410,900
Real Estate	1,480,737	720,752	2,550	2,204,039
Short-term	776,563	380,667	23,880	1,181,110
Total Investments	21,626,484	10,251,279	268,192	32,145,955
Invested Securities Lending Collateral	2,717,017	1,317,633	45,430	4,080,080
Property and Equipment less Accumulated Depreciation	62,798	32,044	-	94,842
Total Assets	24,638,858	11,721,044	316,550	36,676,452
<i>Liabilities</i>				
Accounts Payable and Other Liabilities	3,091	2,193	187	5,471
Securities Lending Collateral	2,717,017	1,317,633	45,430	4,080,080
Total Liabilities	2,720,108	1,319,826	45,617	4,085,551
<i>Net Assets Held in Trust for Pension Benefits</i>	<u>\$ 21,918,750</u>	<u>\$ 10,401,218</u>	<u>\$ 270,933</u>	<u>\$ 32,590,901</u>

RETIREMENT SYSTEMS OF ALABAMA

Financial Section

Combining Statement of Changes in Plan Net Assets

For the Fiscal Year Ended September 30, 2008 with comparative figures for 2007

(Amounts in Thousands)

	2008			
	Teachers' Retirement System	Employees' Retirement System	Judicial Retirement Fund	Totals
Additions				
Contributions				
Employee	\$ 323,822	\$ 189,785	\$ 2,534	\$ 516,141
Employer	729,995	329,339	9,880	1,069,214
Transfers from Teachers' Retirement System	-	1,683	-	1,683
Transfers from Employees' Retirement System	3,182	-	173	3,355
Transfers from Judicial Retirement Fund	-	186	-	186
Total Contributions	<u>1,056,999</u>	<u>520,993</u>	<u>12,587</u>	<u>1,590,579</u>
Investment Income (Note 5)				
From Investing Activities				
Net Decrease in Fair Value of Investments	(4,057,823)	(1,919,746)	(46,910)	(6,024,479)
Interest and Dividends	<u>705,555</u>	<u>339,578</u>	<u>8,206</u>	<u>1,053,339</u>
Total Investment Income from Investing Activities	<u>(3,352,268)</u>	<u>(1,580,168)</u>	<u>(38,704)</u>	<u>(4,971,140)</u>
Less: Investment Expenses	<u>5,990</u>	<u>3,747</u>	<u>8</u>	<u>9,745</u>
Net Investment Income from Investing Activities	<u>(3,358,258)</u>	<u>(1,583,915)</u>	<u>(38,712)</u>	<u>(4,980,885)</u>
From Securities Lending Activities				
Securities Lending Income	83,588	38,458	1,765	123,811
Less Securities Lending Expenses:				
Borrower Rebates	57,695	26,649	1,298	85,642
Management Fees	<u>4,332</u>	<u>1,988</u>	<u>77</u>	<u>6,397</u>
Total Securities Lending Expenses	<u>62,027</u>	<u>28,637</u>	<u>1,375</u>	<u>92,039</u>
Net Income from Securities Lending Activities	<u>21,561</u>	<u>9,821</u>	<u>390</u>	<u>31,772</u>
Total Net Investment Income	<u>(3,336,697)</u>	<u>(1,574,094)</u>	<u>(38,322)</u>	<u>(4,949,113)</u>
Total Additions	<u>(2,279,698)</u>	<u>(1,053,101)</u>	<u>(25,735)</u>	<u>(3,358,534)</u>
Deductions				
Retirement Allowance Payments	1,486,871	655,467	22,587	2,164,925
Return of Contributions and Death Benefits	37,317	31,387	83	68,787
Transfers to Employees' Retirement System	1,683	-	186	1,869
Transfers to Teachers' Retirement System	-	3,182	-	3,182
Transfers to Judicial Retirement Fund	-	173	-	173
Administrative Expenses	12,216	9,892	526	22,634
Depreciation (Note 8)	<u>578</u>	<u>311</u>	<u>-</u>	<u>889</u>
Total Deductions	<u>1,538,665</u>	<u>700,412</u>	<u>23,382</u>	<u>2,262,459</u>
Net Decrease	<u>(3,818,363)</u>	<u>(1,753,513)</u>	<u>(49,117)</u>	<u>(5,620,993)</u>
Net Assets Held in Trust for Pension Benefits:				
Beginning of Year	<u>21,918,750</u>	<u>10,401,218</u>	<u>270,933</u>	<u>32,590,901</u>
End of Year	<u>\$ 18,100,387</u>	<u>\$ 8,647,705</u>	<u>\$ 221,816</u>	<u>\$ 26,969,908</u>

See accompanying Notes to the Financial Statements .

	2007			
	Teachers' Retirement System	Employees' Retirement System	Judicial Retirement Fund	Totals
Additions				
Contributions				
Employee	\$ 302,272	\$ 181,734	\$ 2,416	\$ 486,422
Employer	540,847	277,254	9,307	827,408
Transfers from Teachers' Retirement System	-	2,406	-	2,406
Transfers from Employees' Retirement System	2,814	-	220	3,034
Total Contributions	845,933	461,394	11,943	1,319,270
Investment Income				
From Investing Activities				
Net Increase in Fair Value of Investments	2,589,858	1,249,495	25,988	3,865,341
Interest and Dividends	719,910	347,272	8,500	1,075,682
Total Investment Income from Investing Activities	3,309,768	1,596,767	34,488	4,941,023
Less: Investment Expenses	5,105	3,725	2	8,832
Net Investment Income from Investing Activities	3,304,663	1,593,042	34,486	4,932,191
From Securities Lending Activities				
Securities Lending Income	136,869	58,925	1,945	197,739
Less Securities Lending Expenses:				
Borrower Rebates	126,966	54,648	1,832	183,446
Management Fees	1,770	727	18	2,515
Total Securities Lending Expenses	128,736	55,375	1,850	185,961
Net Income from Securities Lending Activities	8,133	3,550	95	11,778
Total Net Investment Income	3,312,796	1,596,592	34,581	4,943,969
Total Additions	4,158,729	2,057,986	46,524	6,263,239
Deductions				
Retirement Allowance Payments	1,397,808	615,661	21,356	2,034,825
Return of Contributions and Death Benefits	37,474	31,829	183	69,486
Transfers to Employees' Retirement System	2,406	-	-	2,406
Transfers to Teachers' Retirement System	-	2,814	-	2,814
Transfers to Judicial Retirement Fund	-	220	-	220
Administrative Expenses	9,614	7,813	474	17,901
Depreciation	480	298	-	778
Total Deductions	1,447,782	658,635	22,013	2,128,430
Net Increase	2,710,947	1,399,351	24,511	4,134,809
Net Assets Held in Trust for Pension Benefits:				
Beginning of Year	19,207,803	9,001,867	246,422	28,456,092
End of Year	<u>\$ 21,918,750</u>	<u>\$ 10,401,218</u>	<u>\$ 270,933</u>	<u>\$ 32,590,901</u>

RETIREMENT SYSTEMS OF ALABAMA

Financial Section

Notes to the Financial Statements

For the Fiscal Year Ended September 30, 2008

(Dollar Amounts in Thousands)

1) PLAN DESCRIPTION

The Teachers' Retirement System (TRS), Employees' Retirement System (ERS), and Judicial Retirement Fund (JRF) operate under common management and are collectively referred to as the Retirement Systems of Alabama (RSA or Systems). In addition to executive management, the TRS, ERS, and JRF share investment management, accounting, and information system services, the costs of which are allocated to the funds on an equitable basis.

The TRS, a cost-sharing multiple-employer public employee retirement plan, was established as of September 15, 1939, under the provisions of Act 419 of the Legislature of 1939 for the purpose of providing retirement allowances and other specified benefits for qualified persons employed by State-supported educational institutions. The responsibility for the general administration and operation of the TRS is vested in its Board of Control.

The ERS, an agent multiple-employer public employee retirement plan, was established as of October 1, 1945, under the provisions of Act 515 of the Legislature of 1945. The purpose of the ERS is to provide retirement allowances and other specified

benefits for State employees, State police, and on an elective basis, to all cities, counties, towns, and quasi-public organizations. The responsibility for the general administration and operation of the ERS is vested in its Board of Control.

The JRF, a cost-sharing multiple-employer public employee retirement plan, was established as of September 18, 1973, under the provisions of Act Number 1163 of the Legislature of 1973 for the purpose of providing retirement allowances and other specified benefits for any Justice of the Supreme Court of Alabama, Judge of the Court of Civil Appeals, Judge of the Court of Criminal Appeals, Judge of the Circuit Court, or office holder of any newly created judicial office receiving compensation from the State Treasury. Act Number 1205 of the Legislature of 1975 supplemented the provisions of Act Number 1163 and enlarged the scope and coverage of the JRF to include District and Probate Judges. The responsibility for the general administration and operation of the JRF is vested in the Board of Control of the ERS.

At September 30, 2008, the number of participating units in each system was as follows:

	<u>TRS</u>	<u>ERS</u>
Cities	-	282
Counties	-	64
Other Public Entities	-	507
Universities	13	-
Post-Secondary Institutions	29	-
City and County Bds of Education	131	-
State Agencies & Other	31	1
Totals	<u>204</u>	<u>854</u>

At the date of the latest actuarial valuation as presented in the Notes to the Required Supplementary Information, membership consisted of:

	<u>TRS</u>	<u>ERS</u>	<u>JRF</u>
Retirees and beneficiaries currently receiving benefits:			
General	64,429	17,516	304
State Police	-	747	-
Employees of Local Employers	-	15,550	-
Deferred Retirement Option Plan (DROP)	5,071	2,039	-
Terminated employees entitled to benefits but not yet receiving benefits:			
General	16,781	3,700	44
State Police	-	12	-
Employees of Local Employers	-	7,165	-
Active employees:			
General	141,217	33,065	348
State Police	-	730	-
Employees of Local Employers	-	52,873	-
Totals	<u>227,498</u>	<u>133,397</u>	<u>696</u>

State law establishes retirement benefits as well as death and disability benefits and any ad hoc increase in postretirement benefits for the TRS, ERS, and JRF. Benefits for TRS and ERS members vest after 10 years of credited service. Teachers and state employees who retire after age 60 (52 for state police) with 10 years or more of credited service or with 25 years of service (regardless of age) are entitled to an annual retirement benefit, payable monthly for life. Local employees who retire after age 60 with 10 years or more of credited service or with 25 or 30 years of service (regardless of age), depending on the particular entity's election, are entitled to an annual retirement benefit, payable monthly for life. Service and disability retirement benefits are based on a guaranteed minimum or a formula method, with the member receiving payment under the method that yields the highest monthly benefit. Under the formula method, members of the TRS and ERS (except State Police) are allowed 2.0125% of their average final compensation (highest 3 of the last 10 years) for each year of service. State Police are allowed 2.875% for each year of state police service in computing the formula method.

The JRF benefits vest from five to eighteen years. Except for justices or judges who were either disabled, elected prior to July 30, 1979, or have at least 25 years of credited service, no justice or judge is eligible to receive judicial service retirement pay prior to attaining sixty years of age. Service retirement benefits for justices and judges are dependent upon the particular office held in the judicial branch of government. A retirement benefit is payable upon the request of any member who has: (1) 25 years of credited service (regardless of age), (2) completed 12 years of credited service and has attained age 65, (3) completed 15 years of credited service and whose age plus service equals or exceeds 77, (4) completed at least 18 years of credited service or three full terms as a judge or justice and has attained age 65, (5) completed 10 years of credited service and has attained age 70 or (6) been elected prior to July 30, 1979 and has 18 years of service (regardless of age). A member eligible to retire who has not requested his or her retirement benefit to commence at the end of the term in which the member's seventieth birthday occurs is entitled only to the refund of his or her contributions (except for

RETIREMENT SYSTEMS OF ALABAMA

Financial Section

Notes to the Financial Statements

For the Fiscal Year Ended September 30, 2008

(Dollar Amounts in Thousands)

members with at least 25 years of credited service). The service retirement benefit for circuit, appellate, and probate judges is 75% of the member's salary at the time of separation from service. The service retirement benefit for a district judge is 75% of the position's salary immediately prior to retirement.

Covered members of the TRS and ERS (except state police and certified law enforcement, correctional officers and firemen) are required by statute to contribute 5% of earnable compensation to the TRS and ERS. State police members of the ERS contribute 10% of earnable compensation. JRF members and certified law enforcement, correctional officers, and firemen members of the TRS and ERS are required to contribute 6% of earnable compensation.

2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Accounting

The TRS, ERS, and JRF financial statements are prepared using the accrual basis of accounting. Contributions are recognized as revenues when earned, pursuant to plan requirements. Benefits and refunds are recognized when due and payable in accordance with the terms of the plans. Expenses are recognized when the corresponding liability is incurred, regardless of when the payment is made. The accompanying financial statements are prepared in accordance with requirements of the Governmental Accounting Standards Board (GASB). Under these requirements, the TRS, ERS, and JRF are considered component units of the State of Alabama and are included in the State's Comprehensive Annual Financial Report.

B. Investments

The Boards of Control of the Systems have the responsibility and authority to invest and reinvest available funds, through the Secretary-Treasurer and Investment Committee, in bonds, mortgage-backed securities, common and preferred stock, and other investment vehicles with the care, skill, prudence, and diligence under the circumstances then prevailing that

a prudent person acting in a like capacity and familiar with such matters would use. All plan assets are carried at fair value. Securities traded on national or international exchanges are valued at the last reported sales price at current exchange rates. Short-term investments are reported at cost, which approximates fair value. Mortgage-backed securities are reported based on future principal and interest payments discounted at the prevailing interest rate for similar instruments. The fair value of real estate investments is based on independent appraisals. Generally, private placements are valued based on the selling price of similar investments sold in the open market. In those instances where there are no similar investments sold in the open market, an appraisal is performed to determine the fair value of the private placements.

C. Comparative Combining Statements

The basic financial statements include the prior year Combining Statement of Plan Net Assets and Combining Statement of Changes in Plan Net Assets (Statements) for comparative purposes only. Prior-year Note Disclosures are not included. Therefore, the prior year basic financial statement presentation does not meet the minimum level of detail required for a presentation in conformity with generally accepted accounting principles. Accordingly, the prior year Statements should be read in conjunction with the RSA's prior year financial report from which the prior year Statements were derived.

D. Interfund Transfers

Interfund transfers result from transfers of members between retirement systems.

E. New Accounting Pronouncements

During the current fiscal year, GASB 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, was implemented.

3) LEGALLY REQUIRED RESERVES

A. Annuity Savings

Member contributions are credited to the Annuity Savings account. Interest at 4% per annum is credited to the annuity savings account of each member on the basis of the average of the beginning and end of year balances (as of June 30 for the TRS and September 30 for the ERS and JRF).

When a member withdraws from service prior to becoming vested, the member's accumulated contributions and a portion of accumulated interest credited to the Annuity Savings account are returned to the member. The portion of accumulated interest that, by law, is not payable to the member is transferred to the Expense fund.

When a TRS or ERS member dies prior to becoming eligible for retirement, the member's accumulated contributions and accumulated interest credited to the Annuity Savings account are returned to the member's designated beneficiary. If the pre-retirement death benefit defined below is not payable, an additional death benefit equal to the member's accumulated contributions, up to five thousand dollars, is paid from the Pension Accumulation account to the member's beneficiary.

When a member retires or when a survivor allowance becomes payable, the amount of the member's accumulated contributions and accumulated interest is transferred from the Annuity Savings account to the Pension Accumulation account.

B. Pension Accumulation

The Pension Accumulation account is credited with contributions made by the employer and net investment income. The lump sum death benefit is paid from this account when a TRS or ERS member dies prior to becoming eligible for the pre-retirement death benefit or retirement. Periodic interest representing member's earnings is transferred from the Pension Accumulation account to the Annuity Savings account. When a TRS, ERS, or JRF member retires or when a survivor allowance becomes

payable, the member's accumulated contributions and accumulated interest is credited to the pension accumulation account, and all monthly benefit payments are paid from this account.

C. Pre-retirement Death Benefit

The Pre-retirement Death Benefit (PRDB) account (established October 1, 1983, under the provisions of Act 616 of the Legislature of 1983) is credited with contributions made by TRS and ERS employers and investment income on such funds. The pre-retirement death benefit (in the form of group term life insurance) is paid in addition to the return of member contributions upon the death of an active TRS or ERS member who has completed at least one year of active membership in the system and whose date of death was within 180 days of such member's last date of actual service. However, a surviving spouse beneficiary of a deceased member who was eligible for service retirement may elect a survivor allowance in lieu of this benefit. The pre-retirement death benefit is equal to the annual earnable compensation of the member as reported to the System for the preceding year ending June 30 for the TRS and September 30 for the ERS. There is no PRDB available for JRF members.

D. Term Life Insurance

The Alabama Teacher's Group Term Life Insurance Plan (established October 1, 1987) is credited with a portion of the employer contributions. All active contributing members of the TRS are covered by this plan. Contingent on availability of funds, upon death, a benefit is paid to the designated beneficiary of an insured member of the TRS. Beneficiaries of full-time employees receive fifteen thousand dollars while beneficiaries of part-time employees receive a pro-rated amount of fifteen thousand dollars.

E. Expense

The Expense fund is used to pay the administrative expenses of the RSA. A portion of the employer contributions and the interest not payable upon member withdrawal provide the funding of the Expense fund. The majority of expenses are directly

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identifiable as expenses of the TRS, ERS, or JRF. As discussed in Note 1, certain administrative salaries and other expenses are shared on an equitable basis between the TRS and ERS.

F. Deferred Retirement Option Plan (DROP)

The DROP was established for election to participate on or after June 1, 2002, under the provisions of Act 23 of the Legislature of 2002. Eligible members may elect to retire, and, in lieu of immediate withdrawal from service, continue employment for a period of three to five years. The retirement allowance,

employee contributions, and interest earned are accumulated in an account for the benefit of the member. At the end of participation, the account balance is paid to the member. DROP participation is an option available to eligible members that have at least twenty-five years of service (exclusive of sick leave), are at least fifty-five years of age, and are eligible for retirement. See the actuarial section for additional information.

G. Reserves

The reserves of the RSA are funded to the full extent required by statute. The reserve balances as of September 30, 2008, are as follows:

	TRS	ERS	JRF
Annuity Savings	\$ 3,153,859	\$ 1,860,095	\$ 33,933
Pension Accumulation	14,211,168	6,485,519	186,928
Preretirement Death Benefit	23,357	25,694	-
Term Life Insurance	11,489	-	-
Deferred Retirement Option Plan	593,399	219,685	-
Expense	2,947	4,150	955

4) CASH

Cash consists of deposits held by the State Treasurer in the respective retirement systems' name. Deposits are entirely insured by Federal depository insurance or protected under the Security for Alabama Funds Enhancement (SAFE) Program. The *Code of Alabama 1975* requires all State organizations to participate in the SAFE Program. The SAFE Program is a multiple financial institution collateral pool. The SAFE Program requires all public funds to be deposited in a financial institution designated by the State Treasurer as a qualified public depository. Each qualified public depository is required to pledge collateral in accordance with the rules established by the SAFE Board of Directors. In the event that a qualified public depository defaults or becomes insolvent and the pledged collateral is insufficient to satisfy the claims of public depositors, the *Code of Alabama 1975, Section 41-14A-9(3)* authorizes the

State Treasurer to make assessments against the other qualified public depositories in the pool so that there will be no loss of public funds. Virtually all cash on hand at September 30 was restricted for administrative expenses.

5) INVESTMENTS

A. Investment Risks

Investments are subject to certain types of risks, including interest rate risk, custodial credit risk, credit quality risk, and foreign currency risk. The following describes those risks:

Interest Rate Risk – The fair value of fixed-maturity investments fluctuate in response to changes in market interest rates. Increases in prevailing interest rates generally translate into decreases in fair value of those instruments. The fair value of interest sensitive

instruments may also be affected by the creditworthiness of the issuer, prepayment options, relative values of alternative investments, and other general market conditions. Certain fixed maturity investments have call provisions that could result in shorter maturity periods. The Systems do not have a formal policy regarding interest rate risks. However, the Systems' intent is to hold all fixed maturity investments until maturity, and as such, fixed maturity investments are classified in the following tables as if they were held to maturity.

Custodial Credit Risk – For an investment, custodial credit risk is the risk that an entity will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party if the counterparty fails. The RSA's custodial credit risk policy requires the custodial agent to hold or direct its agents or subcustodians to hold, for the account of the RSA all securities and other non-cash property other than securities in the Federal Reserve book-entry system, in a clearing agency which acts as a securities depository, or in another book-entry system. The RSA's safekeeping agent holds all investments of the RSA in the RSA's name with the exception of securities purchased with securities lending cash collateral.

Credit Quality – Nationally recognized statistical rating organizations provide ratings of debt securities quality based on a variety of factors, such as the financial condition of the issuers, which provide investors with some idea of the issuer's ability to meet its obligations. Domestic fixed-maturity investments may consist of rated or non-rated securities. International fixed-maturity investments may consist of securities with a rating of at least A by one of the principal rating agencies at the time of purchase or acquisition, except that up to 2% of the fair value of each System's total portfolio may be invested in obligations of sovereign countries with a rating of BBB or BAA at the time of purchase. The Systems may hedge against the possible adverse effects of currency fluctuations on each System's portfolio of international fixed income obligations

when it is considered appropriate. Short-term investments may consist of commercial paper rated at least A-2 and/or P-2, repurchase agreements, short-term U.S. securities, and other money market investments.

Foreign Currency Risk – The risk that changes in exchange rates will adversely affect the fair value of an investment. In order for an international equity security to be eligible for purchase by the Systems, the issuing company must be incorporated in a country whose debt securities are eligible for purchase as discussed above, and the fair value of the aggregate outstanding equity of the issuing company must be at least \$100 million.

Concentration of Credit Risk – The investment policies limit the aggregate amount that can be invested in each class of investments. The policy limits are as follows:

- Domestic Fixed Income – Limited to 50% of the fair value of the aggregate portfolio for each System.
- International Fixed Income – Limited to 10% of the fair value of each System's total portfolio.
- Domestic Equity – Limited to 65% of the fair value of each System's aggregate portfolio.
- International Equity – The aggregate fair value of international equities is limited to 25% of the aggregate fair value of each System's total portfolio. Also, each System may not purchase or hold more than 5% of any class of the outstanding stock of a company.
- Real Estate – The suggested limit is 15% of the book value of each System's portfolio.
- Alternative Investments (mezzanine financing, LBO's, venture capital, limited partnerships, futures, commodities and derivative investments) – Limited to 10% of the book value of each System's aggregate portfolio.
- Short-term Investments – Limited to 20% of the fair value of each System's aggregate portfolio.

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The following tables provide information as of September 30, 2008, concerning the fair value of investments, interest rate risk, and foreign currency risk:

Type of Investment	INVESTMENTS TRS				Total Fair Value	Cost
	Maturity in Years at Fair value					
	Less Than 1	1-5	6-10	More Than 10		
<i>Fixed Maturity</i>						
Domestic						
Commercial Paper	\$ 421,630	\$ -	\$ -	\$ -	\$ 421,630	\$ 421,630
U.S. Government Guaranteed	60,642	136,187	302,389	-	499,218	470,037
U.S. Agency	-	258,982	186,648	29,311	474,941	470,150
Corporate Bonds	39,679	503,405	443,242	261,765	1,248,091	1,372,178
Private Placements	25,945	340,040	2,232,587	93,860	2,692,432	3,103,041
GNMAs	59	969	726	41,612	43,366	41,179
CMOs	-	2,371	176	213,153	215,700	216,579
Money Market Funds	73,686	-	-	-	73,686	73,686
Total Domestic Fixed Maturity	<u>\$ 621,641</u>	<u>\$ 1,241,954</u>	<u>\$ 3,165,768</u>	<u>\$ 639,701</u>	<u>5,669,064</u>	<u>6,168,480</u>
<i>Equities</i>						
Domestic					7,486,456	6,576,767
Private					609,585	828,513
International						
United Kingdom - Pound Sterling					504,852	498,315
Japan - Yen					516,314	559,147
France - Euro					264,126	225,656
Germany - Euro					214,797	169,088
Switzerland - Franc					182,646	132,238
Netherlands - Euro					59,885	60,101
Italy - Euro					87,546	96,674
Spain - Euro					100,160	79,277
Australia - U.S. Dollar					148,591	113,869
Singapore - U.S. Dollar					27,826	25,769
Belgium - Euro					21,334	29,430
Finland - Euro					33,848	32,818
Hong Kong - U.S. Dollar					48,039	47,314
Sweden - Krona					49,941	45,887
Denmark - Krone					22,657	15,875
Portugal - Euro					6,854	8,723
Ireland - Euro					10,056	17,561
Norway - Krone					20,342	15,324
Greece - Euro					15,036	14,353
Austria - Euro					10,947	13,307
New Zealand - Dollar					1,672	2,734
Emerging Markets					148,706	166,000
Total International Equities					2,496,175	2,369,460
Total Equities					10,592,216	9,774,740
Real Estate					1,494,190	1,129,115
Total Investments					\$ 17,755,470	\$ 17,072,335

INVESTMENTS						
ERS						
Type of Investment	Maturity in Years at Fair Value				Total Fair Value	Cost
	Less Than 1	1-5	6-10	More Than 10		
<i>Fixed Maturity</i>						
Domestic						
Commercial Paper	\$ 106,802	\$ -	\$ -	\$ -	\$ 106,802	\$ 106,802
U.S. Government Guaranteed	25,905	64,211	137,338	-	227,454	214,130
U.S. Agency	-	114,545	90,148	13,081	217,774	215,637
Corporate Bonds	18,971	228,131	202,997	122,341	572,440	629,370
Private Placements	12,433	162,861	1,100,848	41,778	1,317,920	1,522,003
GNMAs	24	468	701	16,211	17,404	16,582
CMOs	-	982	-	96,980	97,962	98,430
Money Market Funds	42,070	-	-	-	42,070	42,070
Total Domestic Fixed Maturity	<u>\$ 206,205</u>	<u>\$ 571,198</u>	<u>\$ 1,532,032</u>	<u>\$ 290,391</u>	<u>2,599,826</u>	<u>2,845,024</u>
<i>Equities</i>						
Domestic					3,532,144	3,134,745
Private					510,202	642,843
International						
United Kingdom - Pound Sterling					221,835	217,811
Japan - Yen					226,833	246,174
France - Euro					116,422	99,057
Germany - Euro					94,395	73,985
Switzerland - Franc					80,267	57,288
Netherlands - Euro					26,333	25,740
Italy - Euro					38,480	42,305
Spain - Euro					44,021	34,080
Australia - U.S. Dollar					65,295	49,985
Singapore - U.S. Dollar					12,234	11,283
Belgium - Euro					9,377	12,941
Finland - Euro					14,876	14,591
Hong Kong - U.S. Dollar					21,121	20,816
Sweden - Krona					21,945	20,260
Denmark - Krone					9,956	6,955
Portugal - Euro					3,010	3,815
Ireland - Euro					4,417	7,672
Norway - Krone					8,944	6,827
Greece - Euro					6,606	6,311
Austria - Euro					4,806	5,877
New Zealand - Dollar					735	1,221
Emerging Markets					72,889	81,250
Total International Equities					1,104,797	1,046,244
Total Equities					5,147,143	4,823,832
Real Estate					726,105	568,805
Total Investments					\$ 8,473,074	\$ 8,237,661

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Type of Investment	INVESTMENTS				Total Fair Value	Cost
	JRF					
	Maturity in Years at Fair Value					
	Less Than 1	1-5	6-10	More Than 10		
<i>Fixed Maturity</i>						
Domestic						
Commercial Paper	\$ 18,996	\$ -	\$ -	\$ -	\$ 18,996	\$ 18,996
U.S. Government Guaranteed	1,819	2,541	6,981	-	11,341	10,637
U.S. Agency	-	3,541	3,270	665	7,476	7,379
Corporate Bonds	1,075	9,288	10,895	5,916	27,174	30,588
Private Placements	-	1,645	4,907	376	6,928	9,782
GNMAs	-	1	36	325	362	357
CMOs	-	89	-	4,934	5,023	5,049
Money Market Funds	3,619	-	-	-	3,619	3,619
Total Domestic Fixed Maturity	<u>\$ 25,509</u>	<u>\$ 17,105</u>	<u>\$ 26,089</u>	<u>\$ 12,216</u>	<u>80,919</u>	<u>86,407</u>
<i>Equities</i>						
Domestic					118,731	81,117
International						
United Kingdom - Pound Sterling					3,064	4,039
Japan - Yen					3,174	4,255
France - Euro					1,575	1,906
Germany - Euro					1,307	1,336
Switzerland - Franc					1,111	1,263
Netherlands - Euro					364	482
Italy - Euro					532	748
Spain - Euro					610	673
Australia - U.S. Dollar					904	998
Singapore - U.S. Dollar					168	170
Belgium - Euro					130	249
Finland - Euro					206	237
Hong Kong - U.S. Dollar					286	335
Sweden - Krona					313	420
Denmark - Krone					144	146
Portugal - Euro					42	57
Ireland - Euro					61	141
Norway - Krone					124	131
Greece - Euro					91	116
Austria - Euro					67	107
New Zealand - Dollar					10	15
Emerging Markets					2,478	2,750
Total International Equities					16,761	20,574
Total Equities					135,492	101,691
Real Estate					2,647	892
Total Investments					\$ 219,058	\$ 188,990

The following tables provide information as of September 30, 2008, concerning credit risk:

RATINGS OF FIXED MATURITIES
TRS

Moody's Ratings§ (Unless Noted)	Fair Value	Cost	Fair Value as a Percent of Total Fixed Maturity Fair Value
US Govt Guaranteed Securities	\$ 542,584	\$ 511,216	9.571
Aaa	750,207	756,371	13.233
AAA (SP)	176	168	0.003
Aa1	30,508	30,726	0.538
Aa2	62,816	65,644	1.108
Aa3	116,382	134,827	2.053
P-1	74,004	74,004	1.305
P-2	421,312	421,312	7.432
A1	139,794	152,694	2.466
A2	118,781	131,851	2.095
A3	170,643	183,140	3.010
Baa1	192,747	189,782	3.400
BBB+ (SP)	26,597	21,898	0.469
Baa2	228,914	244,710	4.038
BBB (SP)	16,271	16,250	0.287
Baa3	137,829	146,528	2.431
Ba1	21,849	22,864	0.385
Ba2	44,081	51,467	0.778
B1	13,460	13,376	0.237
B3	10,352	32,333	0.183
‡ Not Rated	2,549,757	2,967,319	44.978
Totals	\$ 5,669,064	\$ 6,168,480	100.000

§ The Moody's ratings are used when available. The Standard & Poor's rating is used when it is available and a Moody's rating is not available. Standards and Poor's ratings are denoted by (SP). Fixed maturity investments that are not rated are included in the "Not Rated Category".

‡ Primarily consists of private placements.

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RATINGS OF FIXED MATURITIES ERS

Moody's Ratings§ (Unless Noted)	Fair Value	Cost	Fair Value as a Percent of Total Fixed Maturity Fair Value
US Govt Guaranteed Securities	\$ 244,858	\$ 230,712	9.418
Aaa	343,002	345,960	13.193
Aa1	13,796	13,898	0.531
Aa2	28,841	30,137	1.109
Aa3	51,142	59,622	1.967
A1	68,483	73,813	2.634
A2	54,033	59,962	2.078
P-1	42,070	42,070	1.618
P-2	106,802	106,802	4.108
A3	77,418	83,139	2.978
Baa1	91,454	88,641	3.518
BBB+ (SP)	11,717	9,647	0.451
Baa2	103,374	110,668	3.976
BBB (SP)	5,757	5,750	0.221
Baa3	60,001	64,153	2.308
Ba1	11,718	12,277	0.451
Ba2	21,016	24,743	0.808
B1	6,190	6,197	0.238
B2	160	155	0.006
B3	5,355	15,723	0.206
Caa1	66	85	0.003
‡ Not Rated	1,252,573	1,460,870	48.180
Totals	\$ 2,599,826	\$ 2,845,024	100.000

§ The Moody's ratings are used when available. The Standard & Poor's rating is used when it is available and a Moody's rating is not available. Standards and Poor's ratings are denoted by (SP). Fixed maturity investments that are not rated are included in the "Not Rated Category".

‡ Primarily consists of private placements.

RATINGS OF FIXED MATURITIES
JRF

Moody's Ratings§ (Unless Noted)	Fair Value	Cost	Fair Value as a Percent of Total Fixed Maturity Fair Value
US Govt Guaranteed Securities	\$ 11,703	\$ 10,994	14.463
Aaa	14,192	14,503	17.539
Aa1	712	718	0.880
Aa2	1,422	1,487	1.757
Aa3	2,280	2,744	2.818
A1	2,568	2,981	3.174
A2	3,033	3,377	3.748
P-1	3,619	3,619	4.472
P-2	18,996	18,996	23.475
A3	3,671	3,811	4.537
Baa1	4,548	4,912	5.620
Baa2	4,608	5,059	5.695
BBB (SP)	1,001	1,000	1.237
Baa3	2,163	2,383	2.673
Ba1	1,964	2,067	2.427
B3	73	562	0.090
Caa1	1,007	1,295	1.244
‡ Not Rated	3,359	5,899	4.151
Totals	\$ 80,919	\$ 86,407	100.000

§ The Moody's ratings are used when available. The Standard & Poor's rating is used when it is available and a Moody's rating is not available. Standards and Poor's ratings are denoted by (SP). Fixed maturity investments that are not rated are included in the "Not Rated Category".

‡ Primarily consists of private placements.

B. Concentration of Investments

As of September 30, 2008, the TRS and ERS owned debt and equity securities of Raycom Media Corporation which represented approximately 10.57% and 12.65%, respectively, of the TRS and ERS investments.

C. Securities Lending Program

The TRS, ERS, and JRF are authorized by the Boards of Control to participate in a securities lending program. The Systems' custodian, State Street Bank and Trust Company (State Street), administers the program. Certain securities from the TRS, ERS, and JRF are loaned to borrowers approved by the Systems for collateral that will be returned for the same type of securities. Approved borrowers of securities

provide acceptable collateral in the form of cash, securities issued or guaranteed by the United States government or its agencies or instrumentalities, sovereign debt, Canadian Provincial debt, convertible bonds, irrevocable bank letters of credit by a person other than the borrower or an affiliate of the borrower if State Street determines to be appropriate, and such other collateral as the parties may agree to in writing from time to time. All security loans are open loans and can be terminated on demand by the TRS, ERS, JRF, or borrower. The initial collateral received shall have (i) in the case of loaned securities denominated in United States Dollars or whose primary trading market is located in the United States, sovereign debt issued by foreign governments (other than Canada) or corporate bonds that are not denominated in United States Dollars (other than those issued in Canada), a

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value of 102% of the fair value of the loaned securities, or (ii) in the case of loaned securities which are not denominated in United States Dollars or whose primary trading market is not located in the United States (and are not referenced in (i)), a value of 105% of the fair value of the loaned securities, or (iii) in the case of loaned securities comprised of UK gilts, a value of 102.5% of the fair value of the loaned securities, or (iv) in all other cases, such value, not less than 102% of the fair value of the loaned securities, as may be applicable in the jurisdiction in which such loaned securities are customarily traded. Pursuant to the terms of the applicable securities loan agreement, State Street shall, in accordance with State Street's reasonable and customary practices, mark loaned securities and collateral to their fair value each business day based upon the fair value of the collateral and the loaned securities at the close of the business employing the most recently available pricing information and shall receive and deliver collateral in order to maintain the value of the collateral at no less than 100% of the fair value of the loaned securities.

The TRS, ERS, and JRF cannot pledge or sell collateral securities received unless the borrower defaults. Cash collateral is invested in the State Street Quality D Short-term Investments Fund (QDF).

The following describes the QDF's guidelines. The QDF's average effective duration is restricted to 120 days or less. The maximum option-adjusted duration of any variable rate security investment of the QDF shall be five years or less. All fixed rate instruments must have an option-adjusted duration not to exceed 30 months. At the time of purchase, all securities with maturities of 13 months or less must qualify as

first tier securities and all securities with maturities in excess of 13 months will be rated A or better by at least two nationally recognized statistical rating organizations (NRSROs), or, if not rated, be of comparable quality. The QDF may invest in other State Street managed investment vehicles provided they conform to QDF guidelines.

As of September 30, 2008, the average term of the loans was 2, 3, and 3 days, respectively for the TRS, ERS, and JRF. Cash collateral investments in the QDF are matured as needed to fulfill loan obligations.

There is no direct matching of the maturities of the loans with the investments made with cash collateral.

At September 30, 2008, the fair value of the securities on loan was \$1,943,850, \$905,074, and \$40,519 for the TRS, ERS, and JRF, respectively. The fair value of the collateral pledged by the borrowers was \$2,027,865, \$937,761 and \$41,364 for the TRS, ERS, and JRF, respectively. Since the amounts owed by the TRS, ERS, and JRF exceeded the amounts the borrowers owed to the TRS, ERS, and JRF, there was no credit risk exposure as of September 30, 2008. There were no significant violations of legal or contractual provisions, no borrower or lending agent default losses, and no recoveries of prior period losses during the year.

Investments purchased with cash collateral are held by the custodial agent, but not in the name of the Systems. Securities pledged as collateral are held by the custodial agent, but not in the name of the Systems. Letters of credit pledged as collateral are issued by the borrower's bank and are irrevocable. The following table provides information as of September 30, 2008, concerning securities lent:

SECURITIES LENDING - INVESTMENTS LENT AND COLLATERAL RECEIVED

(at Fair Value)

Type of Investment Lent	TRS	ERS	JRF	Totals
<i>For Cash Collateral</i>				
Domestic Fixed Maturities	\$ 747,939	\$ 325,705	\$ 19,592	\$ 1,093,236
Domestic Equity	517,861	288,951	16,491	823,303
International Equity	272,483	105,114	816	378,413
Total Lent for Cash Collateral	1,538,283	719,770	36,899	2,294,952
<i>For Non-cash Collateral</i>				
Domestic Equity	23,380	10,235	1,742	35,357
International Equity	382,187	175,069	1,878	559,134
Total Lent for Non-cash Collateral	405,567	185,304	3,620	594,491
Total Securities Lent	\$ 1,943,850	\$ 905,074	\$ 40,519	\$ 2,889,443
Type of Collateral Received				
<i>Cash Collateral - Invested in State Street Quality D Fund</i>	\$ 1,581,944	\$ 731,431	\$ 37,472	\$ 2,350,847
<i>Non-cash Collateral</i>				
For Lent Domestic Equity Securities				
Securities Collateral - USD	23,938	11,139	1,790	36,867
Letters of Credit	1,494	26	11	1,531
For Lent International Equity Securities				
Securities Collateral				
Canadian Dollars	592	17	-	609
EURO	769	478	-	1,247
US Dollar	417,783	193,758	2,091	613,632
Letters of Credit	1,345	912	-	2,257
Total Non-cash Collateral	445,921	206,330	3,892	656,143
Total Collateral Received	\$ 2,027,865	\$ 937,761	\$ 41,364	\$ 3,006,990

D. Mortgage-backed Securities

As of September 30, 2008, the TRS, ERS, and JRF had investments in mortgaged-backed securities. Embedded prepayment options cause these investments to be highly sensitive to changes in interest rates. Prepayments of the underlying assets reduce the total interest payments to be received. Generally, when interest rates fall, obligees tend to prepay the mortgages thus eliminating the stream of interest payments that would have been received under the original amortization schedule. The resulting reduction in cash flow diminishes the fair value of the mortgage-backed securities.

6) FUNDED STATUS AND FUNDING PROGRESS

State law provides that the Boards of Control engage an actuary to prepare an annual valuation of the assets and liabilities of the various reserve funds. Under the provisions of GASB Statement No. 25, *Financial Reporting for Defined Benefit Plans and Note Disclosures for Defined Contribution Plans*, the actuary determines the “unfunded

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(Dollar Amounts in Thousands)

actuarial liability.” The “unfunded actuarial liability” is the difference between the actuarial value of assets and the actuarial accrued liability.

The funded status of each plan as of the latest actuarial valuation is as follows:

FUNDED STATUS						
Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded/ (Overfunded) AAL (UAAL)	Percentage Funded (A/B)	Annual Covered Payroll (C)	UAAL as a % of Covered Payroll ((B-A)/C)
	(A)	(B)	(B-A)	(A/B)	(C)	((B-A)/C)
TRS						
9/30/2007	\$ 20,650,916	\$ 25,971,534	\$ 5,320,618	79.5	\$ 6,310,616	84.3
ERS						
9/30/2007	9,770,897	12,370,342	2,599,445	79.0	3,389,156	76.7
JRF						
9/30/2007	265,189	315,941	50,752	83.9	41,318	122.8

The schedules of funding progress, presented as required supplementary information (RSI) following the notes to the financial statements, present multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the AALs for benefits.

Additional information as of the latest actuarial valuation follows:

	ACTUARIAL ASSUMPTIONS		
	TRS	ERS	JRF
Valuation date	September 30, 2007	September 30, 2007	September 30, 2007
Actuarial cost method	Entry Age Normal	Entry Age Normal	Projected unit credit
Asset valuation method	5-year smoothed market	5-year smoothed market	5-year smoothed market
Amortization method	Level percent open	Level percent open	Level percent open
Remaining amortization period	20 years	Within 20 years - varies by employer	20 years
Actuarial assumptions:			
Investment rate of return ‡	8%	8%	8%
Projected salary increases ‡	5.00%-7.75%	4.61%-7.75%	5%
Cost of living adjustments	None	None	None

‡ Includes inflation at 4.5%.

7) CONTRIBUTIONS REQUIRED AND MADE

The actuary has computed, as of the date of the latest available actuarial valuations, the estimated present value of benefits payable to retired members, beneficiaries, and active members. The actuarial valuations for the TRS and ERS are prepared using the entry age method, while the JRF valuation utilizes the projected unit credit method. The present value of all expected benefits payable from each system to the present group of members and beneficiaries is calculated by adding the present value of the expected benefits payable to the active members to the present value of the expected future payments to retired members and beneficiaries.

As required by statute, the TRS, ERS, and JRF provide for employer contributions at actuarially determined rates (expressed as percentages of annual covered payroll) that accumulate sufficient assets to pay benefits when due. The employer contributions required to support the benefits of each system are determined following a level funding approach and consist of a normal contribution, an accrued liability contribution, and a portion to finance administrative costs. Additionally, a portion of the TRS and ERS employer contributions fund a pre-retirement death benefit. Also, a portion of the TRS employer contributions fund a term-life benefit.

For the TRS and ERS, the normal contribution is determined using the "entry age normal" method. Under this method, a calculation is made to determine the uniform and constant percentage rate of employer contributions which, if applied to the compensation of the average new member during the entire period of the member's anticipated covered service, would be required in addition to the contributions of the member to meet the cost of all benefits payable on the member's behalf.

For the JRF, the normal contribution is determined using the "projected accrued benefit" (unit-credit) method. Under this method, the benefits of each individual included in an actuarial valuation are allocated by a consistent formula to valuation years. The actuarial gains (losses), as they occur, generally

reduce (increase) the unfunded actuarial accrued liability.

The 2008 retirement contributions were made in accordance with actuarially determined contribution requirements.

8) PROPERTY AND EQUIPMENT

Plan assets used in plan operations are reported at historical cost less accumulated depreciation. Depreciation is determined on the straight-line basis using estimated useful lives of 30 years for buildings and 3 to 10 years for furniture and equipment.

Property and equipment was comprised of the following amounts as of September 30, 2008:

	TRS	ERS
Land	\$ 5,776	\$ 3,034
Building and Improvements	101,092	51,605
Furniture and Equipment	3,149	1,576
Total Property and Equipment	110,017	56,215
Less Accum Depreciation	(5,849)	(3,653)
Net Property and Equipment	\$ 104,168	\$ 52,562

9) OTHER POSTEMPLOYMENT BENEFITS

In addition to the pension benefits described in Note 1, the TRS, ERS, and JRF (as agencies of the State of Alabama) participate in the State Employees' Health Insurance Plan (SEHIP) administered by the State Employees' Health Insurance Board (Board). The State Employees' Insurance Fund (SEIF) was established in 1965 under the provisions of Act 833 of the Legislature to provide health insurance benefits for employees and retired employees of the State of Alabama. In addition, The *Code of Alabama, Section 36-36-1*, established the Alabama Retired State Employees' Health Care Trust (Trust) for the purpose of accumulating assets to fund retiree benefits. The Trust is a single-employer plan. The Trust issues financial statements that may be obtained by writing to:

State Employees' Insurance Board
P.O. Box 304900
Montgomery, AL 36130

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(Dollar Amounts in Thousands)

The *Code of Alabama 1975, Section 36-29-7*, authorizes the employer contributions to the plan. Each year, the Legislature sets the premium rate in the annual appropriation bill required to be paid by employers on behalf of each active member. A portion of the premium is used to assist in funding retiree benefits. The fiscal year 2008 rate was \$775 per active member per month.

The *Code of Alabama, Section 36-29-19.7* authorizes the retiree contributions to the plan. Required monthly contribution rates for FY2008 were as follows:

Required Member Rates

- Individual Coverage/Non-Medicare Eligible – \$167
- Family Coverage/Non-Medicare Eligible Retired Member and Non-Medicare Eligible Dependents(s) – \$365
- Family Coverage/Non-Medicare Eligible Retired Member and Dependent Medicare Eligible – \$288
- Individual Coverage/Medicare Eligible Retired Member – \$0
- Family Coverage/Medicare Eligible Retired Member and Non-Medicare Eligible Dependents(s) – \$198
- Family Coverage/Medicare Eligible Retired Member and Dependent Medicare Eligible – \$121
- For employees that retire other than for disability, for each year under 25 years of service, the retiree pays two percent of the employer premium and for each year over 25 years of service, the retiree premium is reduced by two percent of the employer premium.

Surviving Spouse Rates

- Surviving Spouse Non-Medicare Eligible – \$288
- Surviving Spouse Non-Medicare Eligible and Dependent Non-Medicare Eligible – \$486
- Surviving Spouse Non-Medicare Eligible and Dependent Medicare Eligible – \$409
- Surviving Spouse Medicare Eligible – \$121
- Surviving Spouse Medicare Eligible and Dependent Non-Medicare Eligible – \$319
- Surviving Spouse Medicare Eligible and Dependent Medicare Eligible – \$242

RSA employees participate in the State Employees' Health Insurance Plan, which is a single employer health insurance plan for the State of Alabama. As a component unit, RSA employees participating in the ERS pension plan are valued with all other State of Alabama employees, and therefore, report under the requirements of a cost sharing unit. The following table details the annual required contributions and the percentage contributed. Information will be presented prospectively until the required three year disclosure is met.

	<u>Fiscal Year Ended</u>	<u>Annual Required Contributions</u>	<u>Percentage Contributed</u>
TRS	2008	\$ 1,259	17.30
ERS	2008	1,259	18.10
JRF	2008	18	18.30

10) PENSION PLAN FOR RSA EMPLOYEES

A portion of the RSA employees participates in the TRS pension plan, which is a cost sharing plan, and a portion of the RSA employees participates in the ERS pension plan, which is an agent multiple-employer pension plan. As a component unit, RSA employees participating in the ERS pension plan are valued with all other State of Alabama employees, and therefore, report under the requirements of a cost sharing unit.

Contributions were made to each plan in accordance with actuarially determined contribution requirements. A schedule of Employer Contributions is shown below:

	<u>Fiscal Year</u> <u>Ended</u>	<u>Annual</u> <u>Required</u> <u>Contributions</u>	<u>Percentage</u> <u>Contributed</u>
TRS	2008	\$ 1,060	100
	2007	739	100
	2006	613	100
ERS	2008	809	100
	2007	558	100
	2006	422	100

11) RELATED PARTY TRANSACTIONS

The TRS and ERS jointly own office buildings in Montgomery and lease office space to agencies of the State of Alabama. These agencies are obligated to the TRS and ERS to lease space for varying terms through the year 2028. Rental payments (reported as investment income) from leases with state agencies totaled \$22,787 during the 2008 fiscal year.

12) SUBSEQUENT EVENTS

Subsequent to September 30, 2008, the financial markets continued to decline. Accordingly, as of December 31, 2008, the TRS, ERS, and JRF portfolios had declined by approximately 11.11%, 10.69%, and 13.50%, respectively, compared to September 30, 2008.

RETIREMENT SYSTEMS OF ALABAMA

Financial Section

Notes to the Required Supplementary Information
For the Fiscal Year Ended September 30, 2008

(Dollar Amounts in Thousands)

1) CONTRIBUTIONS

Contributions were made in accordance with actuarially determined contribution requirements. The employer cost rate expressed as a percent of payroll is determined annually by reviewing a variety of factors including benefits promised, member contributions, investment earnings, mortality, and withdrawal experience.

The employer cost rates for the fiscal year 2008-2009 are 12.07% for the TRS, 11.88% for the ERS - State Employees, 30.99% for the ERS - State Police and 23.23% for the JRF. Local agency rates differ for each agency.

2) ANALYSIS OF FUNDING PROGRESS

Analysis of the dollar amounts of the actuarial value of assets, the actuarial accrued liability, and the unfunded actuarial accrued liability in isolation may be misleading. Expressing the actuarial value of assets as a percentage of the actuarial accrued liability (assets to liabilities percentage) provides one indication of the respective retirement system's funding status on a going-concern basis. Analysis of this percentage over time indicates whether the respective system is becoming financially stronger or weaker. Generally, the strength of a retirement system is considered to increase as the assets to liabilities percentage increases. Trends in the actuarial accrued liability and the annual covered payroll are affected by inflation. Expressing the unfunded accrued liability as a percentage of annual covered payroll (liabilities to payroll percentage) approximately adjusts for the effects of inflation and aids analysis of the respective retirement system's progress made in accumulating sufficient assets to pay benefits when due. Generally, the strength of a retirement system is considered to increase as the liabilities to payroll percentage decreases.

RETIREMENT SYSTEMS OF ALABAMA

Financial Section

Required Supplementary Information

For the Fiscal Year Ended September 30, 2008

The following schedules provide information concerning funding progress, employer contributions, and actuarial assumptions:

SCHEDULE OF FUNDING PROGRESS

	Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) (B)	Unfunded/ (Overfunded) AAL (UAAL) (B-A)	Percentage Funded (A/B)	Covered Payroll (C)	UAAL as a % of Covered Payroll ((B-A)/C)
TRS							
**	9/30/2007	\$ 20,650,916	\$ 25,971,534	\$ 5,320,618	79.5	\$ 6,310,616	84.3
	9/30/2006	19,821,133	23,945,100	4,123,967	82.8	5,458,443	75.6
*	9/30/2005	19,248,207	23,027,338	3,779,131	83.6	5,326,408	71.0
	9/30/2004	18,704,009	20,886,190	2,182,181	89.6	4,846,677	45.0
	6/30/2003	18,110,470	19,357,735	1,247,265	93.6	4,632,611	26.9
	6/30/2002	17,904,881	18,374,174	469,293	97.4	4,379,183	10.7
ERS							
	9/30/2007	9,770,897	12,370,342	2,599,445	79.0	3,389,156	76.7
	9/30/2006	9,287,531	11,457,564	2,170,033	81.1	3,070,146	70.7
	9/30/2005	8,935,358	10,634,976	1,699,618	84.0	2,982,122	57.0
	9/30/2004	8,563,945	9,546,478	982,533	89.7	2,702,393	36.4
	9/30/2003	8,312,500	9,124,279	811,779	91.1	2,677,025	30.3
	9/30/2002	8,100,846	8,493,469	392,623	95.4	2,547,775	15.4
JRF							
	9/30/2007	265,189	315,941	50,752	83.9	41,318	122.8
	9/30/2006	260,664	301,592	40,928	86.4	39,185	104.4
	9/30/2005	256,091	299,664	43,573	85.5	40,144	108.5
	9/30/2004	251,844	293,055	41,211	85.9	39,419	104.5
	9/30/2003	247,011	285,123	38,112	86.6	39,742	95.9
†	9/30/2002	245,425	289,858	44,433	84.7	39,763	111.7

** Covered payroll includes the pay increase granted by Act 2007 -296.

* Covered payroll includes the pay increase granted by Act 2005 -174.

† Covered payroll includes estimated salary increases granted to members of the Fund under Act 99-427.

RETIREMENT SYSTEMS OF ALABAMA

Financial Section

Required Supplementary Information (Continued)

For the Fiscal Year Ended September 30, 2008

(Dollar Amounts in Thousands)

SCHEDULE OF EMPLOYER CONTRIBUTIONS

	<u>Fiscal Year Ended</u>	<u>Annual Required Contribution</u>	<u>Percentage Contributed</u>
TRS			
	9/30/2008	\$ 729,995	100
	9/30/2007	540,847	100
	9/30/2006	434,195	100
	9/30/2005	347,862	100
	9/30/2004	312,474	100
	9/30/2003	235,786	100
ERS			
	9/30/2008	329,339	100
	9/30/2007	277,254	100
	9/30/2006	241,750	100
	9/30/2005	195,846	100
	9/30/2004	170,713	100
	9/30/2003	154,218	100
JRF			
	9/30/2008	9,880	100
	9/30/2007	9,307	100
	9/30/2006	8,916	100
	9/30/2005	8,943	100
	9/30/2004	8,994	100
	9/30/2003	8,637	100

RETIREMENT SYSTEMS OF ALABAMA

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Schedule of Administrative Expenses

For the Fiscal Year Ended September 30, 2008

(Amounts in Thousands)

	Teachers' Retirement System	Employees' Retirement System	Judicial Retirement Fund	Totals
Personal Services:				
Salaries	\$ 5,652	\$ 5,179	\$ 385	\$ 11,216
Employee Fringe Benefits	2,661	2,647	89	5,397
Total Personal Services	8,313	7,826	474	16,613
Professional Services:				
Actuarial	98	210	20	328
Accounting and Auditing	52	34	17	103
Information Technology	169	38	-	207
Education & Training	62	10	-	72
Mailing Services	215	86	-	301
Legal Services	-	6	-	6
Personnel Services	64	-	-	64
Other Professional Services and Fees	167	89	5	261
Total Professional Services	827	473	42	1,342
Communications and Travel:				
Telecommunications	143	152	-	295
Internet Access	33	30	-	63
Postage	1,052	561	-	1,613
Travel	103	75	-	178
Total Communications and Travel	1,331	818	-	2,149
Rentals:				
Office Space	617	248	10	875
Equipment Leasing	112	63	-	175
Total Rentals	729	311	10	1,050
Miscellaneous:				
Supplies	898	408	-	1,306
Maintenance	118	56	-	174
Total Miscellaneous	1,016	464	-	1,480
Total Administrative Expenses	\$ 12,216	\$ 9,892	\$ 526	\$ 22,634

RETIREMENT SYSTEMS OF ALABAMA

Financial Section

Schedule of Investment Expenses

For the Fiscal Year Ended September 30, 2008

(Amounts in Thousands)

	<u>Teachers' Retirement System</u>	<u>Employees' Retirement System</u>	<u>Judicial Retirement Fund</u>	<u>Totals</u>
<i>Investment Activity</i>				
Investment Management Fees:				
Salaries and Benefits	\$ 4,967	\$ 3,170	\$ -	\$ 8,137
Dues, Subscriptions and Rentals	319	209	-	528
Travel	13	8	-	21
Professional Services:				
Investment Advisor	60	30	-	90
Investment Custodian	141	98	8	247
Real Estate Appraisal	490	232	-	722
Total Investment Activity Expenses	<u>5,990</u>	<u>3,747</u>	<u>8</u>	<u>9,745</u>
<i>Securities Lending Activity</i>				
Securities Lending Borrower Rebates	57,695	26,649	1,298	85,642
Securities Lending Management Fees	4,332	1,988	77	6,397
Total Securities Lending Activity Expenses	<u>62,027</u>	<u>28,637</u>	<u>1,375</u>	<u>92,039</u>
Total Investment Expenses	<u>\$ 68,017</u>	<u>\$ 32,384</u>	<u>\$ 1,383</u>	<u>\$ 101,784</u>

RETIREMENT SYSTEMS OF ALABAMA

Financial Section

Schedule of Professional/Consultant Fees

For the Fiscal Year Ended September 30, 2008

(Amounts in Thousands)

Professional/Consultant	Nature of Service	Teachers' Retirement System	Employees' Retirement System	Judicial Retirement Fund	Totals
Cavanaugh MacDonald	Actuary	\$ 87	\$ 168	\$ 20	\$ 275
KPMG	Auditor	64	25	17	106
Carr, Riggs & Ingram	Auditor	18	9	-	27
Action in Mailing Inc.	Mail	96	70	-	166
VR Election Services	Mail	104	-	-	104
State Personnel Department	Personnel	64	-	-	64
Fine & Geddie	Consultant	50	-	-	50
Alabama Dept of Finance	Information Technology	16	15	-	31
Auburn Montgomery	Information Technology	188	18	-	206
University of Alabama	Information Technology	27	13	-	40
Admiral Movers	Moving	65	40	4	109
Various	Other	48	115	1	164
Total Professional/Consultant Fees-Admin Services		827	473	42	1,342
Regions Bank	Investment Advisor	60	30	-	90
State Street Bank & Trust Co.	Investment Custodial	141	98	8	247
Pearson Realty Services	Real Estate Appraisor	160	67	-	227
Houlihan, Lokey, Zukin Fin. Advisors	Real Estate Appraisor	330	165	-	495
Total Professional/Consultant Fees-Investment Services		691	360	8	1,059
Total Professional/Consultant Fees		\$ 1,518	\$ 833	\$ 50	\$ 2,401

